Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Michael Machado, Chair
Tom McClintock
Christine Kehoe

HEARING OUTCOMES

Wednesday, May 10, 2006
10:00 a.m.
Room 113

Consultant: Brian Annis

OPEN ISSUES: Select Business, Transportation & Housing / State & Consumer Services

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Department Budgets Proposed for Vote Only

1110 Dental Board of California

The Dental Board of California establishes and enforces standards of competency for those individuals seeking to practice as a dentist, dental hygienist, and registered dental assistant. The budget for the Board, as proposed in the January Governor's Budget, was approved by the Subcommittee on March 22. The Administration has since submitted the following Finance Letter:

1. **SB 299 Position and Funding (April Finance Letter).** The Administration requests ongoing funding of $79,000 (special fund) and 1.0 position to address the workload created by SB 299 (Chapter 4, Statutes of 2006, Chesbro), which established a new license type for individuals who are licensed in another state and who agree to work for at least two years in a clinic or dental school faculty position. This Finance Letter request is consistent with the fiscal estimates included in the bill analyses for SB 299.

   Staff Recommendation: Approve the request.

   Action: Approved on a 3-0 vote.

8820 Commission on the Status of Women

The Commission on the Status of Women serves to advance the causes of women; by advising the Governor and the Legislature; and educating its constituencies. The Governor's Budget proposes expenditures of $438,000 ($436,000 General Fund and $2,000 reimbursements) and 3.9 positions – a decrease of $21,000. The year-over-year decrease is due to the net of backing out deficiency funding of $24,000 for one-time retirement costs, and a $3,000 augmentation in 2006-07 for price increases. The Administration did not submit Budget Change Proposals for the Commission. This budget was heard on March 22, but kept open so the Administration could provide additional information on the year-over-year budget changes.

Staff Recommendation: Approve the Commission's proposed budget.

Action: Approved on a 2-1 vote with Senator McClintock voting no.

Control Section 3.65 Minimum Wage Increase – Contingency Augmentation

Control Section 3.65 would provide authority to the Director of Finance to increase General Fund support and local assistance appropriations by up to $10.3 million for the following departments:

(1) Department of Forestry / Department of Parks and Recreation ($200,000 – for State employees)
(2) California Conservation Corps ($1.0 million – for State employees)
(3) Department of Aging ($500,000 – for non-State employees)
(4) Department of Social Services ($3.0 million – for non-State employees)
(5) Department of Developmental Services ($5.5 million – for non-State employees)

Any augmentations under this section would require enactment of legislation during the 2006-07 Legislative Session to increase the state minimum wage.

Staff Comment: The Governor has voiced support for legislation to increase the state minimum wage from $6.75 per hour to $7.25 per hour, effective September 1, 2006. This Control Section was proposed by the Administration to provide additional funding to comply with a higher minimum wage. To date, no minimum wage legislation has been enacted.

Staff Recommendation: Approve the request.

Action: Approved on a 2-1 vote with Senator McClintock voting no.

Department Budgets Proposed for Discussion

Control Section 31.00 Administrative Procedures for Salaries and Wages

Control Section 31.00 (CS 31.00) specifies Department of Finance oversight responsibilities concerning salaries and wages, and the establishment of positions. The control section also establishes notification requirements for the Administration to report to the Legislature when positions are administratively established and when a position is re-classed to a position with a minimum salary step exceeding $6,334 per month.

Staff Comment: The Subcommittee heard the Department of Managed Health Care's budget on March 8, and discussed 15 positions that were administratively established for the Department in 2005-06 and that the Department anticipated would continue into 2006-07. The Department's interpretation of Control Section 31.00 is more permissive than the interpretation by the Subcommittee Staff and the LAO. The Subcommittee heard the CS 31.00 issue on March 22, and kept it open with the direction to Staff to work with the LAO and the Administration to clarify the control section language.

Revised Language: The LAO conferred with Committee Staff and the Department of Finance and modified the current Control Section 31.00 language to clarify legislative intent. The revised language is Attachment I at the end of this agenda.

Additionally, Staff recommends adoption of trailer bill language requiring Department of Finance reporting on permanent positions departments are keeping in the "blanket." Position information is reported annually to the Legislature in the Salary and Wages document that is provided each January. The "temporary help" category is a single line for each department in the Salary and Wages and does not list classifications – the intent of the category is to pick up student assistants, seasonal workers, and retirees moved there while running out vacation prior to actual retirement. There is concern that some departments are using "temporary help" funding to support permanent positions that have never been approved by the Legislature. The new reporting language may help determine how many departments are using temporary help funding to support permanent positions. The proposed placeholder trailer bill language is as follows:

The Director of Finance shall reconcile with the State Controller's Office and report, by October 1 of each year, the number of permanent employees by department appointed as full-time or part-time tenure in blanket positions for more than six consecutive months in the immediately preceding fiscal year.

Staff Recommendation: Approve the revised Control Section 31.00 budget bill language and the placeholder trailer bill language.

Action: Approved Staff Recommendation on a 2-1 vote with Senator McClintock voting no.

1110 / 1111 Department of Consumer Affairs

The Department of Consumer Affairs Boards and Bureaus provide exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns.

The issues listed below are cross-cutting issues that involve multiple Boards or Bureaus. Issues that relate to a single Board or Bureau are discussed under the heading of the individual Board or Bureau in the pages that follow.

Discussion / Vote Issues

1. **iLicensing Information Technology Project (BCP #1, April Finance Letter, Control Section 4.55).** The Administration requests $11.2 million over four years for an IT project with a total cost of $14.3 million (including redirected funds of $3.1 million and credit card processing fees of $1.4 million). Additionally, the Department requests 8.0 permanent positions for the project (increasing to 13 positions in 2008-09). The project would replace the existing on-line Professional Licensing system with a new iLicensing system. The existing system serves seven DCA licensing entities, but cannot be expanded to include the remaining 31 programs. The April Finance Letter adjusts the 2006-07 funding and positions to tie to an updated project schedule. Additionally, the Finance Letter requests to delete proposed Control Section 4.55, which provides authority to distribute costs and adjust Board and Bureau budgets for the cost of the project – instead, Board and Bureau budgets would be individually adjusted in the budget bill.

   Detail: The Feasibility Study Report (FSR) notes that DCA receives over 300,000 applications for professional licensure each year. Seven of 38 DCA licensing entities allow applicants to apply on-line, while the remaining 31 entities use paper applications. The on-line system would speed notification to initial applicants concerning whether their application is complete or deficient. The FSR indicates renewal applicants are anticipated to see a reduction in processing time from about 5 weeks to approximately 7 days. The Department of Finance letter approving the FSR notes that this project has an oversight criticality rating of "high."

   The FSR lists benefits including processing efficiencies that reduce staff hours by about 26,500 hours, which would translate into a staff reduction of about 15 clerical positions. The BCP requests 13.0 new permanent positions (added over two years) for information technology functions. However, no future staff reductions are associated with this proposal because the DCA indicates clerical staff would be redirected to other backlogged projects or workload growth, and IT staff may be needed on an ongoing basis.

   The Finance Letter also requests budget bill provisional language (note, the below language has been slightly revised from what was in the Finance Letter, but revisions are supported by the Department of Finance):

The Department of Consumer Affairs shall report to the Department of Finance and the Joint Legislative Budget Committee at the conclusion of the iLicensing project, but no later than September 1, 2009, on the status of the project including implementation by boards and bureaus, funding allocations, preliminary usage information among new/existing licensees, and a workload analysis for the positions established to support this project. The Department of Finance may eliminate any position established in the 2006 budget, which supports the iLicensing project, if the workload cannot be justified by the report. In addition, in no case may a fee increase be imposed to support this project.

Staff Comment: As noted in the "Detail" section above, the FSR indicates efficiencies savings of over 26,000 staff hours. This efficiency savings comes from applicants using web-based systems to apply, receive information, and submit payments. One cost of the efficiencies is credit card processing fees, which DCA indicates will be $0 in 2006-07; $49,000 in 2007-08; $552,000 in 2008-09; and $666,000 in 2009-10 and thereafter. If the expected efficiencies are achieved (i.e. reductions in clerical workload and staff), these efficiency savings should be enough to fund the credit card fees. However, the Administration would prefer to budget assuming no efficiency savings and then adjust the budget in 2010 – 2011 (after the September 1, 2009 report has been submitted) to recognize any realized savings.

Staff Recommendation: Approve the April Finance Letter request, but reduce the multi-year amount by $1.4 million to reject the funding for credit card fees (approval would include revised budget bill language, deletion of Control Section 4.55, and related changes to the Boards and Bureaus 2006-07 budgets).

Action: Issue kept open. The Subcommittee requested additional information on the timeline for implementation by individual boards and bureaus, and for an explanation on why board and bureau participation is not mandatory. Additionally, Staff was directed to work with the LAO and the Administration on the issue of efficiency savings.

1110 California Board of Accountancy

The California Board of Accountancy regulates Certified Public Accountants and Public Accountants, as well as accounting partnerships and corporations.

The Board's budget was heard by the Subcommittee on March 22, but all budget issues were kept open pending the resolution of Issue #1 below.

Discussion / Vote Issues

1. **Practice Privilege (Staff Issue).** Last year the Legislature approved a Budget Change Proposal to add 2.0 positions for workload related to SB 1543 (Chapter 921, Statutes of 2004, Figueroa), which allows individuals with accounting licensees in other states to engage in the practice of public accountancy in California (also known as Practice Privilege) under certain conditions. Last year's BCP request was based on the assumption that 1,000 individuals would annually provide notification to the Board. The Board reports that 3,282 notifications have been received through April 24, 2006, and that 5,100 are now expected for 2005-06.

   Staff Comment: The Board testified at the March 22 hearing that four additional positions would be required to fully address the unanticipated SB 1543 workload. With the revised estimates of 5,100 notifications, about three additional positions would be required. Subsequent to the hearing, the Board indicated that their preferred fix for Practice Privilege workload is the enactment of a policy bill to clarify notification requirements, which would be expected to reduce notifications to about 2,000 annually. Staff understands that Senator Figueroa (the author of SB 1543) is supportive of this approach and a policy bill (AB 1868) is moving through committees. If the policy-bill fix is successful, no additional staffing would be required.

   Staff Recommendation: Keep Practice Privilege staffing as budgeted (no vote is required).

   Action: Kept staffing as budgeted (no vote).

2. **Shift of Operating Expense Funds to Personal Services.** The Board requests to shift 0.8 position from temporary help authority to permanent position authority and to fund the cost increase of $43,000 by shifting budgeted funds from Operating Expenses and Equipment to Personal Services.

   Staff Recommendation: Approve this request.

   Action: Approved on a 2-1 vote with Senator McClintock voting no.

1110 Board of Barbering and Cosmetology

The Board of Barbering and Cosmetology licenses barbers, cosmetologists, electrologists, estheticians, and manicurists after determining, through an examination, that applicants possess the minimum skills and qualifications necessary to provide safe and effective services to the public. Additionally, the Board conducts both routine and directed health and safety inspections of related facilities and businesses.

The Board's budget was heard by the Subcommittee on March 22, but all budget issues were kept open pending the resolution of Issue #1 below.

Discussion / Vote Issues

1. **Exams in prison (Staff Issue).** The Board has recently discontinued the practice of providing exams in prisons. In the past, the Board would send staff into prisons to provide licensing exams to prisoners who had completed a vocational program. The intent was to provide individuals with a license prior to leaving prison so they would be immediately employable upon release. With the Administration's new emphasis on rehabilitation, staff understands there are concerns about the Board's decision to discontinue prison exams.

   Staff Comment. At its April 24, 2006 meeting, the Board voted to return to the process of conducting examinations in state correctional facilities. Staff understands that the Rules Committee will continue to monitor progress through upcoming confirmation hearings. Additionally, Budget Staff can check the status of this program during next year's budget process.

   Staff Recommendation: Take no budget action concerning this issue. The Subcommittee can revisit this issue during hearings next year as deemed necessary.

   Action: No budget action was taken. Staff was directed to monitor this issue and bring the issue back to the Subcommittee next year as warranted.

2. **Licensing Positions (BCP #1).** The Board requests an augmentation of $215,000 and 4.0 positions to address increased workload in license applications, renewals, cashiering, and other support functions. The Board indicates 4.0 positions were added for licensing activities in 2004-05; however, the number of license applications has continued to grow (applications are expected to grow in number from 47,626 in 2003-04 to 61,894 in 2006-07).

   Staff Recommendation: Approve this request.

   Action: Approved on a 2-1 vote with Senator McClintock voting no.

3. **Computer-Based Testing (BCP #2).** The Board requests an augmentation of $393,000 in 2005-06 and $580,000 in 2006-07 and ongoing for a higher-than-anticipated number of applicants taking exams via computer-based testing. The Board expects the number of computer-based exams to increase by 20 percent in 2005-06 and an additional 10 percent in 2006-07.

   Staff Recommendation: Approve this request.

   Action: Approved on a 2-1 vote with Senator McClintock voting no.

1110 Medical Board

The Medical Board licenses and regulates physicians, midwives, opticians, spectacle lens dispensers, contact lens dispensers, and research psychoanalysts. The Board administers an enforcement program designed to identify and discipline potentially dangerous physicians. The Board also has oversight responsibility for the Physician Assistant Committee and the Board of Podiatric Medicine.

The Board's budget was heard by the Subcommittee on March 22, but all budget issues were kept open pending the resolution of Issue #1 below.

Discussion / Vote Issues

1. **Implementation of Senate Bill 231 (BCP #1).** Senate Bill 231 (Chapter 674, Statutes of 2005, Figueroa) implemented most of the key recommendations made by the Board's Enforcement Monitor and included a fee increase to close the Board's deficit. The Board requests funding of $3.9 million in 2006-07, $3.5 million in 2007-08, and $91,000 ongoing, for implementation of SB 231. Additionally, 0.5 permanent and 10.0 two-year limited-term positions are requested.

   Background/Detail: The Board's sunset review in 2002 revealed numerous and significant problems with enforcement and public disclosure practices. The Legislature responded by enacting SB 1950 (Chapter 1085, Statutes of 2002, Figueroa), which, among other things, required the hiring of an independent Enforcement Monitor to evaluate the Board and issue recommendations. SB 231 enacted many of the statutory changes necessary to implement the recommendations of the Enforcement Monitor. SB 231 specifies, among other provisions, that physicians inform the Board of court judgments and convictions; that the Board post disciplinary actions against physicians on the Internet; and that the Board is authorized to fine physicians for failure to provide requested documents.

   Staff Comment: The independent Enforcement Monitor made several recommendations which are not included in this funding request. The Monitor recommended the reestablishment of 29 abolished enforcement positions. Additionally, SB 231 requires a diversion audit and a fiscal audit which are not funded in the Governor's Budget.

   Revised Funding Proposal: Committee Staff has worked with the LAO and the Department of Finance to address staffing and audit concerns and understands both entities would support the following changes:

   - Reclass the 10.0 requested limit-term positions to permanent. This would recognize the Monitor's recommendation to restore staff. Any additional staffing augmentations would be deferred to future budgets so the sufficiency of revenue to support additional staff can be further analyzed.
   - Augment funding by a net of $225,000 to recognize cost savings of $150,000 for a public-discloser study and to add funding of $375,000 for the diversion audit and the fiscal audit. Additionally, add the following budget bill language:

<u>Provision to Item 1110-001-0758</u>
Of the amount appropriated in Schedule (1) of this item, $375,000 shall be available for expenditure as follows:
(a) Upon acceptance of a request by the Joint Legislative Audit Committee, $300,000 may be expended to reimburse the Bureau of State Audits for a performance audit pursuant to Section 1 of Chapter 674, Statutes of 2005.
(b) Upon acceptance of a request by the Joint Legislative Audit Committee, or upon adoption of legislation during the second year of the 2005-06 regular session that removes Joint Legislative Audit Committee from the selection process, $75,000 may be expended to reimburse the Bureau of State Audits or another entity for a financial review pursuant to Business and Professions Code Section 2345(i).

Staff Recommendation: Adopt the Revised Funding Proposal, including the budget bill language.

Action: Approved Revised Funding Proposal on a 2-1 vote with Senator McClintock voting no.

2. **Physician Diversion Program Staffing (BCP #2)**. The Board requests $181,000 in 2006-07 and $146,000 ongoing to fund 2.0 Compliance Specialist I positions in the Physician Diversion Program. The Physician Diversion Program is a monitoring and rehabilitation program that seeks ways and means to identify and rehabilitate physicians impaired due to the abuse of drugs or by a mental or physical illness.

   Staff Comment: The BCP indicates that the Program lost one clerical position due to vacant position elimination and that the 2.0 positions are necessary to address workload growth and keep Compliance Specialist caseloads within the established standards.

   Staff Recommendation: Approve this request.

   Action: Approved on a 2-1 vote with Senator McClintock voting no.

3. **Evidence/Witness Augmentation (BCP #3)**. The Board requests $169,000 to address increased costs for expert reviewers and witnesses. The Board investigates approximately 2,000 complaints annually, and as part of the Enforcement Program: gathers evidence; interviews witnesses; secures expert testimony; and performs case review.

   Staff Comment: Actual expenditures have exceeded funding in the Evidence/Witness line item in each of the last four years. The requested augmentation is conservative in that it provides less total funding than was expended in each of the past three years.

   Staff Recommendation: Approve this request.

   Action: Approved on a 3-0 vote.

1111 State Athletic Bureau (Athletic Commission)

The State Athletic Commission will become a bureau directly under the Department of Consumer Affairs, effective July 1, 2006, pursuant to the statutory sunset date for the Commission, and the direction of Business and Professions Code Section 101.1(b). The State Athletic Commission approves, manages, and directs all professional and amateur boxing and full-contact martial arts events. The Board's budget was heard by the Subcommittee on March 22, but all budget issues were kept open pending the resolution of Issue #1 below.

Discussion / Vote Issues

1. **Sunset of the Athletic Commission:** Statute includes a sunset date for the Athletic Commission of July 1, 2006. To date, no legislation has been approved to extend the sunset date of the Commission; however, statute also provides for the functions of the Commission to continue under a Bureau. This means that the seven member Commission is eliminated, but that the staff positions continue under the direct management of the Administration through the Department of Consumer Affairs.

   Staff Comment: Staff understands that policy legislation will likely be adopted to restore the Commission.

   Staff Recommendation: Revise the budget bill to reflect the intent of the Legislature to restore the Commission effective January 1, 2007. (Add a budget bill provision to indicate the intent of the Legislature to approve legislation in the second year of the 2005-06 regular session to reestablish the State Athletic Commission effective January 1, 2007, and to provide authority for the Director of Finance to adjust budget appropriations, as necessary, to shift expenditure authority from the State Athletic Bureau to the State Athletic Commission).

   Action: Approved Staff Recommendation on a 2-1 vote with Senator McClintock voting no.

2. **Staffing Augmentation:** The Commission requests an augmentation of $290,000 and 4.5 positions for regulatory workload. Note, last year the Commission received $46,000 related to SB 1549 (Chapter 691, Statutes of 2004, Figueroa), which added mixed martial arts to the Commission's responsibilities. With this year's augmentation, the Commission's costs more closely reflect SB 1549 fiscal assumptions.

   Staff Recommendation: Approve the request.

   Action: Approved on a 2-1 vote with Senator McClintock voting no.

1111 Bureau of Security and Investigative Services

The Bureau of Security and Investigative Services ensures that only those who meet the prescribed qualifications to offer services as private investigators, repossessors, uniformed security guards, private patrol operators, alarm company operators, alarm agents, locksmiths, and firearm and baton training facilities be licensed, and enforces the regulations established by legislation for such licenses. The Bureau indicates that private security officers are part of the homeland security effort and receive four hours of homeland security training.

The Bureau's budget was heard by the Subcommittee on March 22, but all budget issues were kept open pending the resolution of Issue #1 below.

Discussion / Vote Issue

1. **Enforcement / Staffing issues.** Last year, the Subcommittee received letters from the Service Employees International Union (SEIU) and from the California Association of Licensed Security Officers, Guard, and Associates (CALSAGA) requesting a staffing augmentation for the Bureau. SEIU represents labor and CALSAGA is an employer organization, and both indicated they would prefer additional enforcement and more timely enforcement instead of fee reductions. The Legislature added funding and three positions. The Governor vetoed the augmentation with the following veto message:

   I am vetoing this legislative augmentation of $283,000 and 3.0 positions for the Bureau of Security and Investigative Services. This augmentation is not based on a justified programmatic need, but rather was made because there is a growing fund reserve in the Private Security Services Fund. The growing fund balance reflects a need for the Bureau to reduce fees paid by registrants and is not a reason to increase staffing.

   Staff Comment: Staff understands that the concerns expressed by labor and industry have not been resolved. The Bureau provided historical enforcement data this year that indicates the number of days the Bureau takes to close a guard complaint averaged 101 days between 1997-98 and 2003-04, but is projected to average 142 days between 2004-05 and 2006-07.

   The fee payers, both labor and management represented by SEIU and CALSAGA, support using their existing fee revenue to augment staffing at the Bureau to improve enforcement and the timeliness of action by the Bureau.

   Staff recommendation: Augment Bureau funding by $283,000 (special fund) and 3.0 positions, which is the same action the Subcommittee took last year.

   Action: Approved on a 2-1 vote with Senator McClintock voting no.

2. **Implementation of SB 194 (BCP #1).** The Bureau requests funding of $1.4 million in 2006-07 ($1.1 million ongoing) and 20.0 positions to implement SB 194 (Chapter 655, Statutes of 2005, Maldonado), which requires proprietary private security officers, as defined, to meet specified requirements (including a criminal background check) and register with the Bureau. This request is similar to the fiscal estimates made when SB 194 was enacted ($1.5 million in first-year costs, $1.25 million ongoing).

   Staff Recommendation: Approve this request.

   Action: Approved on a 2-1 vote with Senator McClintock voting no.

1111 Bureau of Private Postsecondary and Vocational Education

The Bureau of Private Postsecondary and Vocational Education is responsible for overseeing and approving private postsecondary vocational and degree-granting institutions to ensure they meet specified minimum statutory standards of quality education, fiscal requirements, and student protection.

The Bureau's budget was heard by the Subcommittee on March 22, but all budget issues were kept open pending further discussions on fee increases to remove the need for the proposed expenditure cuts.

Discussion / Vote Issues:

1. **Budget Reduction (BCP #5):** The Bureau requests an operating expenses and equipment funding reduction of $194,000 to reduce expenditures to align with revenues. The BCP does not include a discussion of the local assistance reduction; however, those were adjusted down in 2005-06 from $4.3 million to $2.8 million. The Bureau indicates revenue is less than previously anticipated, but it cannot justify a fee increase without further research.

   Staff Comment: The Governor proposes Bureau expenditures of $10.3 million (no General Fund) and 54.4 positions – an increase of $309,000 and a decrease of 3.8 positions from adjusted 2005-06 expenditures. However, 2005-06 expenditures include savings relative to the original 2005-06 budget of $11.7 million. The savings were necessitated by insufficient funds in the Private Postsecondary and Vocational Education Administration Fund, which has an expected fund reserve of $2,000 at the end of 2005-06.

   Other Legislative Action: SB 1544 (Chapter 740, Statutes of 2004, Figueroa), extended the sunset date of the Private Postsecondary and Vocational Education reform Act (Act) to July 1, 2007, and required the Bureau to contract with a Administrative Monitor. A current bill, SB 1473 (Figueroa) would recast and revise the Act. The intent of the bill is to focus more on enforcing student protection laws and shift some workload out of the Bureau to accrediting agencies. The final legislation may also include fee changes.

   Staff Recommendation: Recommend approval of the BCP request. The relevant policy committees are currently taking a comprehensive look at Bureau activities and revenues. Budget Committee action may be more appropriate next year after the conclusion of policy discussions.

   Action: Approved on a 3-0 vote.

2. **Fund Shifts (BCPs #1&2):** The Bureau requests to shift expenditures and positions that are currently funded from the Private Postsecondary and Vocational Education Administration Fund to the Student Tuition Recovery Fund ($243,000 and 3.0 positions) and federal funds ($184,000 and 2.0 positions). In the case of the former, the Bureau indicates this change better aligns the activity with the funding source. In the case of the federal funds shift, the Bureau indicates that the 2.0 positions will change duties and perform work related to veterans' education. A motivating factor for both of these shifts is the limited revenue in the Private Postsecondary and Vocational Education Administration Fund.

   Staff Recommendation: Approve these requests.

   Action: Approved on a 3-0 vote.

3. **Centralization of Positions (BCPs #3&4).** The Bureau requests to transfer 2.0 information technology positions to the Department of Consumer Affairs centralized Office of Information Support (OIS) and 2.0 Enforcement Program positions to the Department's centralized Complaint Mediation Program. In both cases the Bureau requests no net change in funding because it is assumed the Bureau would still use the services of these four positions and would reimburse the Department for the cost of the positions.

   Staff Recommendation: Approve these requests.

   Action: Approved on a 3-0 vote.

1111 Bureau of Automotive Repair

The Bureau of Automotive Repair administers the Automotive Repair Program and the Smog Check Program. Both Programs are designed to protect consumers and discipline unethical service dealers and technicians. The Bureau also administers the Consumer Assistance Program, which provides financial assistance to eligible consumers whose vehicles fail a biennial Smog Check inspection.

The budget for the Bureau, as proposed in the January Governor's Budget, was approved by the Subcommittee on March 22. The Administration has since submitted the following Finance Letter:

1. **Vehicle Retirement Program (April Finance Letter).** The Bureau requests a three-year limited-term augmentation of $3.7 million (special fund) to expand the Vehicle Retirement Program, which removes high-polluting vehicles from the roads. The Finance Letter indicates an additional 3,500 vehicles would be retired annually with this proposal. The program would be expanded by relaxing the certain vehicle-registration eligibility requirements. The Bureau indicates it can achieve this expansion without adding new staff.

   Detail: As part of the Consumer Assistance Program, the Bureau administers the Vehicle Retirement Program which pays consumers $1,000 to voluntarily retire their operational, but not Smog-check compliant, vehicle at an approved automobile dismantler. The base program is funded at $16.3 million and retires approximately 15,000 vehicles annually. The Bureau also has a Repair Assistance Program which assists low-income consumers with the repair of high-polluting vehicles. The special fund that would support this request (the High Polluter Repair or Removal Account) has a fund balance exceeding $40 million and this augmentation can be accomplished without a fee increase.

   Staff Comment: At the March 22 hearing, the Subcommittee approved a BCP for a $3.8 million augmentation for the Repair Assistance Program. This Finance Letter augments the related Vehicle Retirement Program.

   Staff Recommendation: Approve the Request.

   Action: Approved on a 2-1 vote with Senator McClintock voting no.

2180 Department of Corporations

The Department of Corporation's (Corporations) budget was heard by the Subcommittee on March 8 and April 20, and the following issues were left open (no April Finance Letters were submitted for the Department):

Discussion / Vote Issue

1. **California Financial Information Privacy Act (Staff Issue).** The 2004 Budget Act included provisional language that required Corporations to report to the Legislature by January 10, 2006, on the Department's implementation of the California Financial Information Privacy Act (enacted by SB 1, Chapter 241, Statutes of 2003, Speier). The report suggests that the actual workload has been significantly less than anticipated. However, the Administration requests to keep all the existing SB 1 funding and positions.

   Background: Corporations submitted a BCP in 2004 requesting 22.0 additional positions to implement SB 1. Corporations proposed to audit all firms for SB 1 compliance during their regular audit visit. The Legislature approved reduced staffing for a complaint-driven process –10.0 positions were approved.

   Staff Comment: At the March 8 hearing, the Subcommittee directed staff to work with Corporations to develop and cost-out staffing alternatives that would reduce the Department's SB 1 staffing by eight to ten positions. The issue was kept open on April 20 so the Department could provide more detail and justification for its staffing alternatives.

   Staff Recommendation: Hold action on this issue, and take a combined action after considering Issue #2 below.

2. **Elimination of Investigator Positions (Staff Issue**). In 2003-04, Corporations eliminated all 14.0 of its Investigator positions as part of the 2003 Budget Act Control Section 4.10 process which required a statewide reduction of 16,000 permanent positions, as specified. Newspaper reports indicate that the cases the Department referred for criminal prosecution declined from 27 in 2002 to none in 2004. Without Investigator positions, this function falls to local law enforcement and the State Attorney General, who received no additional funds to perform this activity. Since the elimination occurred through Control Section 4.10, the Legislature did not consider this reduction through the Budget Subcommittee process, and no public discussion occurred on the affect these reductions would have on consumer protection.

Recent Legislative Action: Last year, the Joint Legislative Audit Committee approved a Bureau of State Audits study of Corporations activities. The audit was approved, but will not be complete until 2006-07.

Staff Comment: This issue was heard and left open at both the March 8 and April 20 hearings.

Revised Corporations Staffing Proposal: The Department has submitted a BCP-type document explaining and justifying the following adjustments, which shift positions approved for SB 1 workload to general enforcement / investigative workload (see also Issue #1 on the prior page) and result in no net change to funding or positions relative to the Governor's Budget:

- Maintain one Examiner position for SB 1 workload.
- Officially recognize that 9 of 10 positions originally established for SB 1 workload have been redirected to perform general enforcement work due to a low level of realized SB 1 workload.
- Reclass three of the nine positions to Investigators. This would restore the "Investigator" classification and function to the Department.

The Department justifies retaining these "SB 1" positions which have been performing non-"SB 1" enforcement work, by citing an increase in the level of enforcement activity: the number of Desist and Refrain Orders increased from 88 in 2004 to 142 in 2005; and the number of Administrative Actions increased from 65 in 2004 to 99 in 2005. Additionally, the reclassifications to create three Investigators would allow the Department to identify fraud while it is occurring versus after a consumer has lost money and to ensure compliance with Desist and Refrain Orders.

<u>Additional Justification Detail:</u> The Department provided the following information on May 4 to further justify the revised staffing proposal:

- The data show a correlation between staff and enforcement actions – there was a decrease in enforcement actions as the enforcement staff fell from 2002 through 2004, with an upturn as the "SB 1" positions were diverted to general enforcement in 2005 and 2006.
- There was a 30-percent increase in the licensee population between 2002-03 and 2004-05.

The Department does not maintain good data on rejected complaints, so Staff is unable to review data in this area to further analyze the staffing need.

Staff Recommendation: Approve the revised Corporations staffing proposal. (This action covers both Issues #1 and #2). The data Corporations maintains on complaints are not as comprehensive as those maintained by other departments. However, because the BSA will be conducting a thorough audit of the Department, it may be better to maintain the baseline number of positions, and make further adjustments, as warranted, next year after the BSA audit is complete.

Action: Approved revised Corportations staffing proposal on a 2-1 vote with Senator McClintock voting no.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The Department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

HCD was heard by the Subcommittee on March 8. The issues included below are issues left open on March 8, and April Finance Letter requests submitted subsequent to the last hearing.

1. **Transfer of Dormant Housing Funds back to the General Fund (April Finance Letter).** The Department proposes the addition of a budget bill transfer item to transfer $7.514 million from the Housing Rehabilitation Loan Fund to the General Fund. The 2000 Budget Act included a General Fund transfer of $25.0 million to the Housing Rehabilitation Loan Fund for purposes of providing local assistance for the Downtown Rebound Program. However, there have not been sufficient applications for the Adaptive Reuse Component of the Downtown Rebound Program to utilize the remaining funds. The Administration additionally requests to retain $486,000 in remaining Downtown Rebound Project funding, and with the adoption of authorizing trailer bill language, use that $484,000 to fund the budget requests outlined in issue numbers 2 and 3 below.

   Staff Comment: The Subcommittee has approved similar transfers to the General Fund in past budgets. The Subcommittee may want to add the retained $486,000 to the transfer item. This would be a more standard budget treatment. If the Subcommittee decides to approve funding for issues 2 and 3 below, those expenditures would be appropriated from the General Fund instead of the Housing Rehabilitation Loan Fund. The net General Fund impact is the same with either approach, but the Administration’s proposal requires trailer bill language to allow the one-time expenditure of Housing Rehabilitation Loan.

   Staff Recommendation: Approve the transfer request, but increase the amount by $486,000 (to a total of $8.0 million). Conforming action for issues 2 and 3 below would remove the need for special trailer bill language.

   Action: Approved Staff Recommendation on a 3-0.

2. **Housing Performance System (April Finance Letter).** The Administration requests a one-time augmentation of $286,000 to replace an information technology system used to track submittal of housing element data and produce annual reports (the total project cost is $599,000 including $314,000 in redirected resources). Additionally, the administration requests approval of trailer bill language to allow the use of Housing Rehabilitation Loan Funds for this purpose.

   Detail: The HCD has an automated system, the Housing Element Tracking System (HETS) to track the submittal and certification dates of housing elements of cities and counties in the state. HETS is approximately 20-years old and no longer supported by the vendor. HCD indicates that HETS has a high risk of failure and 1.0 new staff would be required to perform manual input if the new system is not approved. The new system would also include new functionality such as web-based reporting.

   Staff Comment: If the Subcommittee wants to fund this project, staff recommends conforming to the staff recommendation on issue number 1 above – approve the request but fund with a General Fund appropriation. If done in concert with a higher General Fund transfer in issue #1, this would not have a net General Fund impact and would avoid the need for trailer bill language.

   Staff Recommendation: Approve the project, but reject the requested trailer bill language and shift the funding to the General Fund.

   Action: Approved Staff Recommendation on a 2-1 vote with Senator McClintock voting no.

3. **Statewide Housing Plan Update (April Finance Letter).** The Administration requests a one-time augmentation of $200,000 to update and print the Statewide Housing Plan (SHP). The funding would pay an external contractor. Statute requires an update of the plan by January 1, 2006 – the Administration did not meet that deadline, but would update the plan if this request is approved. Additionally, the Administration requests approval of trailer bill language to allow the use of Housing Rehabilitation Loan Funds for this purpose.

   Detail: The most current Statewide Housing Plan was published in May 2000. Statute was amended by SB 1777 (Chapter 818, Statutes of 2004, Ducheny) to change the biennial report requirement to a required update on January 1, 2006, again by January 1, 2009, and every four years thereafter. The Department indicates its base funding was insufficient to meet the January 1, 2006 deadline.

   Staff Comment: If the Subcommittee wants to fund this activity, staff recommends conforming to the staff recommendation on issue number 1 above – approve the request but fund with a General Fund appropriation. If done in concert with a higher General Fund transfer in issue #1, this would not have a net General Fund impact and would avoid the need for trailer bill language.

   Staff Recommendation: Approve the project, but reject the requested trailer bill language and shift the funding to the General Fund.

Action: Approved Staff Recommendation on a 2-1 vote with Senator McClintock voting no.

4. **Trailer Bill to Redirect Proposition 46 Housing Bond Funds to Transit-Oriented Housing (April Finance Letter).** The Administration requests trailer bill language to allow $15.0 million in unused Proposition 46 funds, originally set aside for the purpose of funding student housing through the Multifamily Housing Program, to be reallocated to the Transit-Oriented Housing Component of the Downtown Rebound Program.

   Detail: Proposition 46 included a provision to transfer any unused student housing funds, after 24 months, to the Adaptive Reuse Component of the Downtown Rebound Program. The Department indicates that demand for the Adaptive Reuse Component of the funds has been low and the funding would likely go unexpended for an extended period of time. This request would allow the expenditures in Transit-Oriented Housing Component of the Downtown Rebound Program, instead of the Adaptive Reuse Component.

   Staff Comment: Proposition 46 authorizes legislative adjustments for programmatic effectiveness or efficiency. The Legislature has approved similar adjustments to Proposition 46 funds in past budgets.

   Staff Recommendation: Approve the request.

   Action: Approved request on a 2-1 vote with Senator McClintock voting no.

5. **Economic Development Areas – Administrative Funding (BCP #5).** The Department proposes trailer bill language to eliminate the January 1, 2007, sunset date for Enterprise Zone application fees, which support HCD's costs of administering the economic development area programs. Absent the fee authority, HCD would need General Fund support of $698,000 to replace the fee revenue (half of this amount would be needed in 2006-07 due to the January 1, 2007, sunset).

   Background: The State currently designates four types of economic development areas intended to attract and retain businesses in economically-challenged communities. Currently, there are 42 Enterprise Zones (EZs), eight Local Agency Military Base Recovery Areas (LAMBRAs), two Manufacturing Enhancement Areas (MEAs), and one Targeted Tax Area (TTA). The HCD is charged with administering the economic development area programs; however, the Franchise Tax Board collects the Corporations Tax and the Personal Income Tax and may audit any company or individuals claiming the credits. The HCD is budgeted six positions and $698,000 to administer the program, with revenue derived from fees, not to exceed $10, for each Enterprise Zone application. Statute does not currently allow for the imposition of fees to cover the State's cost of the LAMBRA, MEA, and TTA programs. Last year, a budget trailer bill (AB 139) extended the fee authority sunset date until January 1, 2007. Businesses are only required to pay the fee if they choose to take advantage of the tax credit.

   HCD indicates 44,721 businesses used EZ tax credits and 2,789 businesses used tax credits in all the other economic development areas in 2003. The Administration estimates that State tax revenue in 2006-07 will be reduced by $350 million due to the tax credits. Additionally, the Franchise Tax Board estimates a total accumulated corporate tax carryover credit of $650 million.

   Staff Comment: In accordance with last year's legislative action, the Subcommittee may want to consider adding the same fee authority to LAMBRAs, MEAs, and TTAs, that is currently in place for EZs. If the fee authority is not broadened to include the other types of economic development programs, the EZs will continue to fund the HCD cost of administering these other programs.

   Discussions are continuing on policy bills to reform to the Enterprise Zones. However, staff is unaware of any proposals that would change the HCD budget need for 2006-07.

   Staff Recommendation: Approve the Administration's proposed EZ trailer bill but amend the language to add the same fee authority for LAMBRAs, MEAs, and TTAs.

   Action: Approved Staff Recommendation on a 2-1 vote with Senator McClintock voting no.

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating State policies and plans for California's transportation programs.

The Commission's budget was heard by the Subcommittee on March 30, but the BCP request was kept open after the Commission testified they had updated information on the workload and associated staffing need.

Discussion / Vote Issues

1. **Toll Bridge Seismic Oversight Positions:** The Administration requests a net augmentation of $171,000 and one position to perform oversight work related to the Toll Bridge Seismic Retrofit Program. Additionally, one-half of an existing position would be redirected to this workload. Oversight responsibility was added to the CTC's workload with the passage of AB 144 (Chapter 71, Statutes of 2005), which enacted a financing plan to complete work on the new east span of the San Francisco - Oakland Bay Bridge. AB 144 requires the Executive Director of the CTC to serve on the Toll Bridge Oversight Committee. The new position would be funded by reimbursements from the Bay Area Toll Authority.

   Revised CTC Request: The CTC believes they need more staff for oversight work related to the Toll Bridget Retrofit Program and requests two additional positions than what is provided for in the Governor's proposed budget.

   The requested additional positions would also be funded out of reimbursements from the Bay Area Toll Authority, which would increase the reimbursement by $224,000.

   The CTC indicates that the Bay Area Toll Authority supports the increase of the reimbursement to support the additional two positions.

   Staff Recommendation: Approve the revised CTC request.

   Action: Approved revised CTC request on a 2-1 vote with Senator McClintock voting no.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The Department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

Caltrans' budget was heard by the Subcommittee on March 30. The issues included below are issues left open on March 30 and April Finance Letter requests submitted subsequent to the last hearing. <u>Some issues left open on March 30, and some April Finance Letters, are not included here, but will be included on a Subcommittee agenda after the release of the May Revision of the Governor's Budget</u>.

Vote-Only Issues

1. **Alternative Fuel Vehicles (BCP #4).** The Administration requests a one-time augmentation of $4.0 million (State Highway Account) to purchase alternative fuel vehicles and install exhaust filter trap devices on heavy-duty trucks. Caltrans indicates these measures are necessary to comply with mandates from the South Coast Air Quality Management District (SCAQMD), which is charged with bringing Orange County and the urban portions of Los Angeles, Riverside, and San Bernardino Counties, into federal air quality compliance by 2010.

   Background/Detail: Last year, the Subcommittee approved a similar Finance Letter to augment the Caltrans budget by $3.7 million (one-time) for SCAQMD mandates. At the time, the Administration indicated there was an ongoing cost; however, they preferred to review the need on an annual basis. Caltrans indicates 18 highway sweepers and 29 heavy-duty trucks are due for replacement in 2006-07. The new vehicles would either use compressed natural gas (27 vehicles) or be retrofitted with specially fitted exhaust filter traps (20 vehicles). The exhaust filter traps for heavy duty trucks are less expensive that compressed natural gas vehicles ($8,000 versus $106,000 per vehicle); however, Caltrans cannot pursue that option unless it submits a Technical Infeasibility Certification Request to SCAQMD to justify that there are not enough compressed natural gas vehicles available.

   Staff Comment: This issue was discussed at the March 30 hearing, and kept open so Caltrans could provide additional detail on alternative fuel vehicles in the State fleet. Caltrans reports that 3,563 of 13,800 total vehicles are considered "green vehicles."

   Staff Recommendation: Approve the request.

   Action: Approved request on a 2-1 vote with Senator McClintock voting no.

2. **Fleet Insurance Rate Decrease (April Finance Letter #10).** The Administration requests a budget reduction of $1.1 million to reflect a lowered assessment for fleet insurance costs negotiated by the Department of General Services. The revised cost for Caltrans is $7.0 million, which is $1.1 million less than the funding provided for this purpose in the Governor's Budget.

   Staff Comment: The Subcommittee approved a similar budget adjustment for the California Highway Patrol.

   Staff Recommendation: Approve the request.

Action: Approved request on a 3-0 vote.

3. **Technical Corrections to the Governor's Budget (April Finance Letter #9).** The Administration requests various technical budget adjustments to correctly reflect: 2006-07 adjustments for past-year budget actions; current BCP requests; and other technical-type budget shifts.

   Staff Comment: The Subcommittee approved a similar technical correction Finance Letter last year for Caltrans.

   Staff Recommendation: Approve the request.

Action: Approved request on a 3-0 vote.

4. **Project Resourcing and Schedule Management (April Finance Letter #4).** The Administration requests budget actions to provide a total of $11.6 million for the Project Resourcing and Schedule Management (PRSM) information technology (IT) project, which will improve employee timekeeping in the Capital Outlay Support program by allowing more accurate reporting of employee time spent by individual project. The request is split between an appropriation of $4.5 million (special fund) and a reappropriation of $7.1 million. The total request ties to the amount originally approved for the project by the Legislature in the 2001 Budget Act.

   Background / Detail: The 2001 Budget Act appropriated $11.6 million for the PRSM project. A single project bid was received that resulted in a revised project cost of $26.1 million. Instead of requesting additional funds, the Administration performed a value analysis, a market analysis, and produced an updated special project report. A portion of the original funding was allowed to revert ($4.5 million). Caltrans has worked with DGS, and feels the revised project can be accomplished with the $11.6 million originally estimated in 2001. The PRSM system would allow project managers to accurately track project expenditures and project support expenditures while a project is ongoing.

   Staff Recommendation: Approve the request.

Action: Approved request on a 3-0 vote.

5. **Federal Transportation Act – Adjustments to the Mass Transportation Budget (April Finance Letter #1).** The Administration requests an augmentation in federal fund expenditure authority of $442,000 and 5.0 three-year limited-term positions to administer two new federal grant programs established by the federal Safe, Accountable, Flexible, and Efficient Transportation Equity Act-Legacy for Users (SAFETEA-LU).

   Detail: The two new grant programs, Job Access/Reverse Commute and New Freedom are intended to increase the mobility of certain specified disadvantaged populations, specifically those on welfare or with low income, and the disabled. California is expected to receive approximately $128 million through 2009 through these two programs. The Metropolitan Planning Organizations (MPOs) will administer $99.8 million for the large urbanized areas within the state, and Caltrans will administer $28.7 million for the small urbanized and rural areas.

   Staff Recommendation: Approve the request.

Action: Approved request on a 2-1 vote, with Senator McClintock voting no.

6. **Federal Transportation Act – Adjustments to the Traffic Operations Budget (April Finance Letter #3).** The Administration requests an augmentation in State Highway Account expenditure authority of $231,000 and 2.0 three-year limited-term positions for the development and implementation of a federally required State Strategic Highway Safety Plan (Plan). Without a federally-approved Plan, the state may lose $90 million annually in federal safety funds.

   Detail: SAFETEA-LU established a new core Highway Safety Improvement Program (HSIP) and requires increased coordination of safety-related expenditures between states and local agencies. The Plan would increase coordination by adoption of a set of strategies and countermeasures, to be guided by agreed upon criteria and performance-based measures. Pursuant to federal direction, the Plan would look at not just highway structural improvement, but also enforcement, public education and emergency medical services. Caltrans indicates it will also involve the California Highway Patrol and Department of Motor Vehicles in the process.

   Staff Recommendation: Approve the request.

Action: Approved request on a 3-0 vote.

Discussion / Vote Issues

1. **Federal Transportation Act – Adjustments to the Local Assistance Support Budget (April Finance Letter #2).** The Administration requests an augmentation of $3.2 million (primarily State Highway Account) and 33.0 positions (28.0 three-year limited-term and 5.0 one-year limited-term) to administer federal grant programs revised and/or added by the Safe, Accountable, Flexible, and Efficient Transportation Equity Act-Legacy for Users (SAFETEA-LU).

   Detail: The Finance Letter indicates that $2.7 million of the request (and 28.0 three-year limited-term positions) would provide: (1) administration for 283 new local assistance projects per year; (2) the coordination of the Local Assistance Highway Safety Improvement Program; (3) the coordination of the Safe Routes to School Program; and (4) a National Environmental Policy Act delegation pilot project. The remaining $414,000 (and 5.0 one-year limited-term positions) would address the backlog in closing out federal invoice vouchers, in order to accelerate the receipt of final federal payments.

   Staff Comment: Enabling legislation is required to allow Caltrans to participate in the National Environmental Policy Act (NEPA) pilot project. Assembly Bill 1039, which was approved by the Senate on May 4, 2006, and by the Assembly on May 5, 2006, as part of the infrastructure bond package, contains the authority for California to participate in the federal NEPA pilot project.

   Staff Recommendation: Approve the request.

   Action: Approved request on a 2-1 vote, with Senator McClintock voting no.

2. Short Term Congestion Relief Projects (April Finance Letter #6). The Administration requests funding of $40.3 million (State Highway Account - $30 million one-time and $10.3 million ongoing) and 9.0 positions to complete a number of projects over an 18-month period intended to provide short-term congestion relief in selected locations on the state highway system.

Detail: The Finance Letter indicates $20 million in one-time funding would be used on the Interstate 210 corridor in Los Angeles ($13.4 million for metering lights, $1.3 million for new detection stations, $5.3 million for consulting services including design-build). The Department notes this project would be a model for this type of traffic congestion relief strategy, which could later be expanded to other corridors.

The request includes permanent funding of $6.2 million for the Freeway Service Patrol program. Of the amount requested, $800,000 would be directed to the California Highway Patrol, for their administration of the program (conforming budget action is required for the CHP). The remaining $5.4 million would fund an additional 108,000 tow-truck hours and assist approximately 90,000 motorists. By clearing disabled vehicles more quickly, this program relieves traffic congestion.

The remaining $14.1 million ($4.1 million ongoing) would fund various statewide projects to replace loop detectors, install changeable message signs, install other signal coordination equipment, and maintain existing equipment.

Staff Comment: The Department indicates it has changed its implementation strategy since the Finance Letter was released to utilize traditional procurement instead of design-build. According to Caltrans, a statutory amendment would be needed to use design build, and the Department feels this particular project can be implemented at the same cost and within the same timeframe with traditional procurement.

Suggested Questions: The request for $20 million to support improvements to the 210 corridor in Los Angeles, is unusual, in that most improvements of this nature would be approved by the California Transportation Commission through the SHOPP or STIP program.

- Why was the $20 million for the 210 not requested through the CTC as part of a SHOPP or STIP project?
- Does the Administration intend to request funding for other projects in future budget years, or would future requests go through the CTC?

Staff Recommendation: Approve this request. Also approve conforming action for the CHP to allow it to receive reimbursement of $800,000 from Caltrans for CHP's administration of the Freeway Service Patrol Program.

Action: Held open at the request of Caltrans.

3. **Corridor Mobility Management Program (April Finance Letter #7).** The Administration requests one-time funding of $5.0 million (State Highway Account) to further the development and implementation of Caltrans' Corridor Mobility Management Program (CMMP). Caltrans recently used existing budgetary authority to conduct a corridor management plan on Interstate 880 in the Bay Area. This request would produce a similar plan for segments of three additional corridors: I-405, I-580/205, and I-5.

   Detail: Caltrans indicates that UC Berkeley produced the I-880 corridor plan at a cost of $1.8 million. Caltrans assumes future corridor plans would cost approximately $1.8 million each, whether they are produced through a UC campus or a private vendor. The Finance Letter indicates that the plans would determine exact causes and exact locations of traffic congestion and help identify, evaluate, and recommend exact infrastructure improvements and operational and management strategies to reduce congestion. The intent of these plans is to prioritize expenditures and create efficiencies – by producing higher levels of congestion relief per dollar spent. Caltrans indicates that the I-880 plan will not only help in planning future projects, but may also cause the local transportation authority to revise or reprioritize projects in various pre-construction stages.

   Staff Comment: The Finance Letter indicates that seven additional corridors have also been identified by Caltrans for this program. To complete all 10 corridors, the Legislature would have to approve additional one-time funding of approximately $12.0 million. The $5.0 million requested for 2006-07 is intended to be available to begin work on another of the seven corridors if the cost for the three requested falls below $5.0 million.

   Suggested Questions: The Subcommittee may want to get a better idea of the Administration's intent concerning future budget requests in this area.

   - Are the three corridors requested here an additional "pilot" to be evaluated prior to future request?
   - Does Caltrans consider the remaining seven to be in the pilot, or is the perceived need limited to these ten corridors?
   - Does Caltrans think this type of workload is ongoing and should it be budgeted on a permanent basis?

   Staff Recommendation: Approve the request.

   Action: Approved request on a 2-1 vote, with Senator McClintock voting no.

4. Dismantle the Internal Service Fund (BCP #16). The Administration requests approval of trailer bill legislation to dismantle the Internal Service Fund (ISF), known as the Equipment Service Fund (ESF). The Equipment Program would continue as a distributed program. The ESF never produced the anticipated savings and dismantling the ISF will also eliminate the rental rate development process and the extensive fiscal and legal accounting requirements associated with the ISF.

Background: The ISF was established in 1997-98 for the cost recovery of the Department's mobile fleet equipment and services. The vision was for the Division of Equipment to become a full rental agency operating as a private business model with the ability to expand or contract to meet customer's needs, serve other tax-supported entities and to provide cost measures for managing the fleet. Caltrans has been unable to either reduce overall usage by better distributing the fleet between programs or to rent idle equipment to other public entities as originally intended when the ESF was created.

In the 2005 Budget Act, the Administration and the Legislature agreed to budget bill language and funding for the Office of State Audits and Evaluations (within the Department of Finance) to evaluate the appropriateness of operating the Equipment Service Program as an internal service fund. A report to the Legislature was due from the Department of Finance on January 10, 2006. This report was submitted on March 24, 2006.

Staff Comment: This issue was kept open at the March 30 hearing to give staff more time to review the Office of State Audits and Evaluations report. The report does not contain a recommendation, but rather lists pros and cons of each option. For the Administration's recommended option of dismantling the Internal Service Fund, the report indicates no efficiencies were substantiated by Caltrans for the existing program and that rental rate development and other administrative requirements added workload and cost to the program. The report adds support to the Administration's conclusion that the existing program has added costs but not achieved efficiencies, and should be dismantled.

Staff Recommendation: Approve the request.

Action: Approved request on a 3-0 vote.

5. **Owner Controlled Insurance Program (BCP #9).** The Administration requests an augmentation of $1.4 million (State Highway Account) and 1.0 position to implement the statewide Owner Controlled Insurance Program (OCIP) as a pilot program with 82 projects. With the OCIP, the Department, as the owner of the highway, would purchase major insurance coverage for its construction projects. Under the current process, Caltrans pays insurance costs indirectly through inclusion of the costs in the contractors' bids. The funding of $1.4 million would only cover the cost of hiring a consultant – the cost to purchase the insurance could exceed $120 million (according to the Caltrans) and the total project costs (including construction, staffing, etc.) would be about $5.2 billion. Caltrans believes the $120 million plus in extra insurance costs would be more than offset through lower bids – the savings is estimated to be in the range of $40 million to $65 million.

LAO Recommendations: The LAO finds that "the cost savings that could be realized through an OCIP are much more uncertain than Caltrans indicates." Accordingly, the LAO recommends a smaller pilot and the following budget bill language (note: this is a revised recommendation from what was included in the LAO's *Analysis of the 2006-07 Budget Bill*):

Budget Bill Language Limiting Size of Pilot:
Up to $1.4 million appropriated in this item is available for support of Caltrans' Owner Controlled Insurance Program to administer insurance coverage for contractors on projects with combined total costs not to exceed $750 million.

Supplemental Report Language:
By April 1 of 2007, 2008 and 2009, respectively, Caltrans shall report to the Joint Legislative Budget Committee and the policy committees on transportation on the following:

- *The type and value of projects included in the pilot.*
- *The amount that Caltrans would have paid contractors for comparable insurance coverage in the absence of an owner controlled insurance program (OCIP), as identified in documentation submitted with contractors' bid statements.*
- *The amount the department paid in insurance premiums, deductibles, program administration, and any other OCIP-related costs incurred during the pilot.*
- *The estimated net cost or benefit of implementing the pilot, as identified by comparing contractors' estimates for insurance costs in the absence of an OCIP to the amount the department paid in insurance-related costs under the OCIP.*
- *An assessment of the projects that were best suited for inclusion in an OCIP and the projects that were least well suited, in terms of cost effectiveness.*

Staff Comment: The Subcommittee heard this issue on March 30, and it was kept open so additional information could be provided. Caltrans provided copies of a

June 1999 US General Accounting Office report on transportation OCIPs and a July 2003 California Department of General Services report on office building OCIPs.

<u>US General Accounting Office (GAO) Report</u>
The GAO looked a six transportation projects and reported that OCIPs provided savings of 1 to 3 percent of total project costs (according to project owner estimates). The GAO report also included the following findings and/or comments:

- The major advantages of OCIPs include savings from buying insurance "in bulk," eliminating duplication in coverage, handling claims more efficiently, reducing potential litigation, and enhancing workplace safety.
- The potential disadvantages of wrap-up insurance include requiring project owners to invest more time and resources in administration.
- A limitation of OCIPs is that projects must be sufficiently large, or contain at least a sufficient amount of labor costs, to make wrap-up insurance financially viable.
- Some contractors dislike OCIPs because it reduces a contractor's profits from insurance rebates.

<u>California Department of General Services (DGS) Report</u>
The DGS looked at State building facilities construction projects and found that OCIPs reduced State costs in the range of 1 to 2 percent.

Staff Recommendation: Approve the request with the LAO recommended budget bill language and supplemental report language.

Action: Held open at the request of Caltrans.

Attachment I – Amendments to Control Section 31.00

SEC. 31.00. (a) The appropriations made by this act shall be subject, unless otherwise provided by law, to Section 13320 of, and Article 2.5 (commencing with Section 13332) of Chapter 3 of Part 3 of Division 3 of Title 2 of, the Government Code, requiring expenditures to be made in accordance with the allotments and other provisions of fiscal year budgets approved by the Department of Finance.

(b) The fiscal year budgets shall authorize, in the manner that the Department of Finance shall prescribe, all established positions whose continuance for the year is approved and all new positions. No new position shall be established unless authorized by the Department of Finance on the basis of work program and organization.

(c) The Director of Finance, or his or her authorized designee, shall notify the Chairperson of the Joint Legislative Budget Committee within 30 days of authorizing any position not authorized for that fiscal year by the Legislature or any reclassification to a position with a minimum step per month of six thousand three hundred thirty-four dollars ($6,334) as of July 1, 2006. ~~He or she also shall report all transfers to blanket authorizations and the establishment of any permanent positions out of a blanket authorization.~~

(d) *It is the intent of the Legislature that all positions administratively established pursuant to this section that are intended by the administration to be ongoing be submitted to the Legislature for approval through the regular budget process as soon as possible.* All positions administratively established pursuant to this section during the 2006-07 fiscal year shall terminate on June 30, 2007, except for those positions that have been (~~a~~ *1) approved by the Legislature as part of the regular budget process* ~~included in the Governor's Budget~~ for the 2007-08 fiscal year as ~~proposed~~ new positions, or (~~b~~ *2*) approved by the Department of Finance ~~and reported~~ ~~to the Legislature~~ after the 2007-08 Governor's Budget submission to the Legislature *and subsequently reported to the Legislature prior to July 1, 2007*. The positions identified in ~~(a) and (b)~~ *(2)* above may be reestablished by the Department of Finance during the 2007-08 fiscal year, provided these positions are shown in the Governor's Budget for the 2008-09 fiscal year as submitted to the Legislature, ~~or in subsequent Department of Finance letters to the Legislature, and~~ provided that these positions do not result in the establishment of positions deleted by the Legislature through the budget process for the 2007-08 fiscal year. *The Department of Finance will notify the Legislature within 30 days of the reestablishment of positions approved in the 2007-08 fiscal year pursuant to (2) above.*

(e) No money in any 2006-07 fiscal year appropriation not appropriated for that purpose may be expended for increases in salary ranges or any other employee compensation action unless the Department of Finance certifies to the salary and other compensation-setting authority, prior to the adoption of the action, that funds are available to pay the increased salary or employee compensation resulting from the action. Prior to certification, the Department of Finance shall determine whether the increase in salary range or employee compensation action will require supplemental funding in the 2007-08 fiscal year. If the Department of Finance determines that supplemental funding will be required, no certification shall be issued unless notification in writing is given by the Department of Finance, at least 30 days before certification is made, to the chairperson of the committee in each house that considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or a lesser time which the chairperson of the joint committee, or his or her designee, determines.

(f) A certification on a payroll claim that expenditures therein are in accordance with current budgetary provisions as approved by the Department of Finance shall be sufficient evidence to the Controller that these expenditures comply with the provisions of this section.